

A REPORT
TO THE
ARIZONA LEGISLATURE

Accounting Services Division

Compliance Review

Maricopa County Regional School District No. 509

Year Ended June 30, 2006



Debra K. Davenport
Auditor General

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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

September 27, 2007

Governing Board
Maricopa County Regional School District No. 509
358 North 5th Avenue
Phoenix, AZ 85003

Members of the Board:

We have reviewed the District's audit reports and Uniform System of Financial Records (USFR) Compliance Questionnaire for the year ended June 30, 2006, prepared by Cronstrom, Osuch & Company, P.C. to determine whether the District substantially complied with the USFR. As a result of that review and our procedural review of the Maricopa County School Superintendent's Office and the District for the year ended June 30, 2006, we noted significant deficiencies in internal controls that indicate the District had not complied with the USFR. District management should implement the recommendations we have described in this report and our procedural review report dated September 21, 2007, within 90 days after the date of this letter. We have communicated specific details for all deficiencies to management for correction.

We also noted that Cronstrom, Osuch & Company, P.C. qualified their opinion on the District's financial statements for the year ended June 30, 2006, because the District did not maintain adequate internal accounting records and controls over revenues in its Other Special Revenue Fund.

During the 90-day period, the District may request a meeting to discuss our recommendations with my Office and the Arizona Department of Education by calling Magdalene Haggerty, Accounting Services Director, or Michael Stelpstra, Accounting Services Manager.

A member of my staff will contact the District in several weeks to discuss the District's action to implement our recommendations. After the 90-day period, my staff will schedule an on-site review of the District's internal controls to determine whether the District is in substantial compliance with the USFR. Our review will cover the deficiencies we have communicated to management as well as any other internal control deficiencies we are aware of at the time of our review.

Sincerely,

Debbie Davenport
Auditor General

TABLE OF CONTENTS



Introduction 1

Recommendation 1: The District should ensure the accuracy of its financial information and effectively monitor its spending 2

Recommendation 2: District controls over purchasing and expenditures should be strengthened 3

Recommendation 3: The District should ensure the accuracy of its student attendance records 4

INTRODUCTION

Maricopa County Regional School District No. 509 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$14.7 million it received in fiscal year 2006 to provide this education.

The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

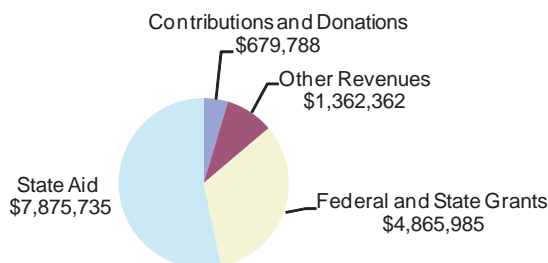
As a result of our review of the District's audit reports and USFR Compliance Questionnaire for the year ended June 30, 2006, and our procedural review of the Maricopa County School Superintendent's Office and the District for the year ended June 30, 2006, (see our procedural review report dated September 21, 2007) we determined that the District had failed to comply with the USFR. In addition, because of inadequate internal accounting records and controls over revenues in the Other Special Revenue Fund, the District's contract auditors qualified their opinion on the District's financial statements for the year ended June 30, 2006.

We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship and to comply with the USFR. Our recommendations are described on the following pages.

District Facts Fiscal Year 2006

County: Maricopa
Number of Schools: 15

Number of Students: 1,613
Grade Levels: K-12



Source: *Annual Report of the Arizona Superintendent of Public Instruction for Fiscal Year 2005-2006* and *Maricopa County Regional School District No. 509 Annual Financial Report for the Fiscal Year Ended June 30, 2006*.

The District should ensure the accuracy of its financial information and effectively monitor its spending

The District should report accurate information to the District's Governing Board, the public, and agencies from which it receives funding. To achieve this objective, management should ensure that its accounting records and annual financial reports

Inadequate records and ineffective internal controls over \$2 million of revenues in the Other Special Revenue Fund, including revenues from gifts and donations and extracurricular activities tax credits contributions, left monies susceptible to loss, theft, or misuse.

are accurate and complete. In addition, because of the relatively high risk associated with cash transactions, the District should establish and maintain effective internal controls to safeguard cash and ensure that cash receipts are promptly and accurately recorded. However, the District did not maintain adequate accounting records and

effective internal controls over revenues in its Other Special Revenue Fund, causing the auditors to issue a qualified opinion on the District's financial statements. Additionally, the District did not retain documentation, such as cash receipt forms, for more than \$170,000 in cash received from its daycare program.

Further, the District did not prepare a balanced budget or ensure that expenditures were sufficiently funded. As a result, the District's Maintenance and Operation Fund owed more than \$3.3 million to other district funds and the County Treasurer at June 30, 2006, resulting in a deficit fund balance of more than \$2.7 million. For more information on this finding, along with recommended corrective action, see our September 2007 procedural review report.

Recommendations

The recommendations in our September 2007 procedural review report as well as the following procedures can help the District strengthen controls over its accounting records and cash receipts, and effectively monitor its spending:

- Maintain adequate accounting records for all financial activity, and prepare and retain documentation to support the financial transactions recorded.
- Prepare cash receipt forms for all monies received, have an employee independent of receiving cash prepare daily cash receipt summaries, and reconcile the amount of cash received to the receipts issued. Retain receipt forms, cash collection summaries, and documentation of reconciliations.

USFR section VI-B provides guidance on preparing and maintaining accounting records.

Cash receipt procedures are described on USFR pages VI-F-1 through 5.

District controls over purchasing and expenditures should be strengthened

School District Procurement Rules for competitive sealed bidding and USFR guidelines for purchases below the competitive sealed bid threshold promote open and fair competition among vendors and help ensure that districts receive the best possible value for the public monies they spend. However, the District did not obtain sealed bids for purchases in excess of the sealed bid threshold and did not always obtain oral price quotations for purchases that required them. Additionally, the District did not retain all credit card receipts and statements to support credit card purchases.

The District did not follow competitive purchasing requirements, and therefore, could not ensure it received the best value for the public monies it spent.

Recommendations

To strengthen controls over purchasing and expenditures, and to comply with School District Procurement Rules and USFR guidelines, the District should:

- Determine in writing whether to request oral or written price quotations or competitive sealed bids or proposals by analyzing the known requirements for an item or a collection of items that, in the aggregate, may result in purchases above the applicable threshold.
- Issue invitations for bids or requests for proposals for purchases of construction, materials, or services exceeding \$33,689, and maintain all documentation required by the School District Procurement Rules.
- Obtain oral price quotations from at least three vendors for purchases estimated to cost between \$5,000 and \$15,000, and written price quotations from at least three vendors for purchases estimated to cost between \$15,000 and \$33,689. If the District cannot obtain three price quotations, it should document the vendors contacted and their reasons for not providing quotations.
- Require employees using district credit cards to promptly submit receipts to the business office and indicate on them the employee making the purchase and the specific school purpose for the expenditure. In addition, billings on the credit card statements should be agreed to the credit card receipts, and the District should retain the credit card statements and receipts.

School District Procurement Rules provide the requirements for:

- Competitive sealed bids for goods and services in excess of \$33,689.
- Competitive sealed proposals for goods and services when factors other than the lowest cost are appropriate.

Guidelines for oral and written price quotations can be found on USFR pages VI-G-8 and 9 and in USFR Memorandum No. 213.

Guidance on credit card usage is provided on USFR page VI-G-7.

The District should ensure the accuracy of its student attendance records

The District may not have received the correct amount of funding because its membership and absences were not accurately calculated or reported.

The State of Arizona provides funding to school districts based on student membership and attendance. In turn, the State requires school districts to maintain accurate attendance records to help ensure that the District receives the appropriate amount of state aid. However, membership and absences reported to ADE did not always agree to the District's attendance records, and the District did not always correctly calculate and report partial-day attendance or retain documentation to support partial-day attendance. Additionally, the District did not always prepare and retain entry and withdrawal forms, and entry forms did not always indicate the students' entry dates.

The District also failed to meet the minimum instructional hours requirement for seventh and eighth grade students at one middle school. Also, the District did not document the date that student entries and withdrawals were entered into the District's computerized attendance system or submit membership and absence information to ADE electronically at least every 20 school days.

Recommendations

The following procedures can help ensure that the District receives the correct amount of funding:

- Prepare and retain entry and withdrawal forms for all student entries and withdrawals.
- Ensure that student entry forms include the entry date.
- Assign an employee to verify that membership and absences reported to ADE agree with the District's attendance records, including teachers' attendance registers, if prepared separately.
- Record attendance for students enrolled in first through eighth grades if attendance is based on half-days, as follows:
 - Attendance of at least $\frac{3}{4}$ of the instructional time scheduled for the day should be counted as a full day of attendance.
 - Attendance for at least $\frac{1}{2}$, but less than $\frac{3}{4}$, of the instructional time scheduled for the day should be counted as $\frac{1}{2}$ day of attendance.

ADE provides guidance for attendance reporting requirements in its *Instructions for Required Reports*.

- Prepare student sign-in and sign-out logs and make any necessary adjustments to student attendance based on students' late arrival or early departure. Retain such logs to support partial-day attendance.
- Ensure that all grades are scheduled to meet for the minimum number of instructional hours each year.
- Document the date that entries and withdrawals are entered into the District's computerized attendance system. Entries and withdrawals should be entered within 5 days to ensure that the students' enrollment status is accurately reflected in ADE's Student Accountability Information System.
- Submit membership and absence information by student to ADE at least once every 20 school days.